

Message Text

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ACTION EB-08

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C O N F I D E N T I A L CARACAS 3088

E.O. 11652: GDS
TAGS: EIND, EINV, VE
SUBJECT: OWENS-ILLINOIS CASE

REF: 76 CARACAS 14539

1. AS THE DEPARTMENT IS AWARE, OWENS-ILLINOIS HAS BEEN WORKING ON PLANS FOR AN EXPANSION OF THEIR PRESENT FACILITIES IN VENEZUELA. THIS WAS IN RESPONSE TO VENEZUELAN INITIATIVES WHICH LED THE COMPANY TO BELIEVE THAT THE EXPANSION WOULD BE THE BACKDROP BY WHICH THE NATIONALIZATION OF THE COMPANY ANNOUNCED BY PRESIDENT PEREZ COULD BE RESOLVED TO THE MUTIAL SATISFACTION AND BENEFIT OF BOTH SIDES. IN A REVERSAL, WHICH HAD BEEN INTIMATED IN RECENT WEEKS BY GROWING RUMORS, WILLIAM COLEMAN OF O-I WAS INFORMED BY MINISTER OF DEVELOPPMEN LUIS ALVAREX DOMINGUEZ THAT THE ISSUE OF ARBITRATION OVER THE NATIONALIZATION PRICE HAD ONCE MORE CREPT TO THE FORE FRONT OF VENEZUELAN OFFICIAL CONSCIOUSNESS. COLEMAN WAS INFORMED THAT ARBITRATION WOULD PROCEED ON VENEZUELAN TERMS AND THAT IT WOULD BE NECESSARY FOR THE THIRD ARBITRATOR TO BE EITHER A VENEZUELAN OR A VENEZUELAN RESIDENT. THE NAMES OF WILLIAM RHODES, LOCAL NATIONAL CITY BANK REPRESENTATIVE AND CARLOS VOGELER RINCONES, THE HEAD OF THE GLASS INDUSTRY SECTION OF FEDECAMARAS, WERE PROPOSED BY THE VENEZUELANS ON A EITHER/OR BASIS. NOTHING FURTHER WAS
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SAID ABOUT THE EXPANSION PROJECT AND COLEMAN FEARS THAT THE PROJECT IS DEAD.

2. COLEMAN WAS GIVEN THIS DEMAND IN THE FORM OF AN ULTIMATUM. IF NOT COMPLIED WITH PROMPTLY, THE GOV WOULD MOVE TO INTRODUCE EXPROPRIATION LEGISLATION. WHETHER THIS EXPROPRIATION REFERS ONLY TO O-I OR ALTERNATIVELY

TO THE ENTIRE GLASS OR GLASS CONTAINER INDUSTRY IS NOT CLEAR SINCE THERE MAY BE LEGAL IMPEDIMENTS IN MOVING SOLELY AGAINST O-I. ALVAREZ DOMINGUEZ DID SAY HOWEVER THAT THERE WOULD BE NO OBJECTION TO THE CONSTRUCTION OF A NEW PLANT BY OWENS-ILLINOIS (REGARDLESS OF ANDEAN PACT REGULATIONS, ACCORDING TO THE MINISTER) AND THAT THE GOVE WAS NOT INTERESTED IN OWENS-ILLINOIS' FLAT GLASS PLANT. HE ALSO SAID THAT THE GOV WOULD BE INTERESTED IN A TECHNICAL ASSISTANCE CONTRACT BUT WOULD HAVE TO CONSIDER A MANAGEMENT CONTRACT.

3. COLEMAN IS PREPARING TO SUBMIT A COUNTER OFFER WITH REGARD TO PRICE WHICH WILL APPROXIMATE REPLACEMENT VALUE. ON ARBITRATION HE EXPECTS TO REITERATE THE O-I POSITION FOR APPLICATION OF THE GROUND RULES OF THE INTERNATIONAL CHAMBER OF COMMERCE, WITH REGARD TO SELECTION OF THIRD ARBITRATORS FROM THIRD COUNTRIES. FURTHER OBFUSCATING THE ISSUE ARE REPORTS QUOTING CARMELO LAURIA AS HAVING SAID HE OFFERED O-I A SUM EQUAL TO 10 TIMES EARNINGS (DENIED BY COLEMAN BUT REPRESENTING A FIGURE WITHIN APPROXIMATELY \$4 MILLION DOLLARS OF REPLACEMENT COST) AND INDICATING THAT THE FINANCIAL GROUP HEADED BY GUSTAVO CISNEROS IS INTERESTED IN PURCHASING THE OWENS-ILLINOIS OPERATION FOR 300 MILLION BOLIVARES.
VAKY

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Disposition Date: 22 May 2009
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